

**REPORT OF THE AUDIT OF THE
WARREN COUNTY
SHERIFF**

**For The Year Ended
December 31, 2006**

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The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

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Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Warren County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2006. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2006, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2006 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Warren County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink that reads "Ross & Company". The signature is written in a cursive, flowing style.

Ross & Company, PLLC

August 30, 2006

WARREN COUNTY
JERRY "PEANUTS" GAINES, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2006

Revenues

Federal Grants		\$	25,800
KLEFPF Grant			146,552
State Fees for Services			
Finance and Administration	\$	369,536	
Sheriff's Security Service		135,354	
Transporting Prisoners		79,720	
HB 413		11,082	
Other		1,053	596,745
Circuit Court Clerk			
Arrest Fees			9,591
Fiscal Court			3,957,444
County Clerk			4,050
Commission on Taxes			1,179,073
Fees Collected for Services:			
Auto Inspections		49,865	
Accident and Police Reports		4,835	
Serving Papers		108,630	
Add-on Fees		82,731	
Carrying Concealed Deadly Weapon Permits		24,460	
Sheriff's Advertising Fees		10,644	281,165
Other Revenues:			
County Collections		62,996	
Reimbursed Expenses		1,680	
Miscellaneous		1,219	65,895
Interest Earned			51,481
Total Revenues			6,317,796

JERRY "PEANUTS" GAINES, SHERIFF

The accompanying notes are an integral part of the financial statements.

STATEMENT OF REVENUES AND EXPENDITURES - REGUALTORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

Expenditures

Payments to State:

Carrying Concealed Deadly Weapon Permits		36,845
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Payments Made By County:

County Collections	67,890	
KLEFPF Reimbursement	20,452	
Transportaqtion Expense	54,890	
Bank Charge	160	
Reimbursed Expenses	6,985	
Reimbursed Payroll	54,375	
Other	1,053	205,805

Total Expenditures		242,650
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Net Revenues		6,075,146
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Payments to State Treasurer:

75% Operating Fund	5,766,531	
25% County Fund	308,615	6,075,146

Excess Fee Payments (End of Term)		-
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Balance Due at Completion of Audit		\$ -
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WARREN COUNTY
JERRY "PEANUTS" GAINES, SHERIFF
STATEMENT OF REVENUES, EXPENDITURES, AND
FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2006

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2006	\$ (1,574,115)	\$ -	\$ (1,574,115)
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	5,766,531		5,766,531
Fees Paid to State - County Funds (25%)		308,615	308,615
Total Funds Available	4,192,416	308,615	4,501,031
<u>Expenditures</u>			
Personnel Services-			
Official Statutory Maximum	94,106		94,106
Official Training Incentive	3,302		3,302
Deputies' Salaries	2,188,616		2,188,616
Part-Time Salaries	16,543		16,543
Overtime Gross	285,452		285,452
Employee Benefits-			
Employer's Share Social Security	182,523		182,523
Employer's Share Retirement	540,041		540,041
Employer's Paid Health Insurance	162,808		162,808
Other Payroll Disbursements	1,325		1,325
Contracted Services-			
Advertising	15,938		15,938
Materials and Supplies-			
Office Supplies	29,964		29,964
Uniforms	28,922		28,922

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
 JERRY "PEANUTS" GAINES, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2006
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges-			
Conventions and Travel	1,448		1,448
Training	24,171		24,171
Postage	21,971		21,971
Firearm Certification and Training	16,974		16,974
Insurance	17,391		17,391
Computer Programming and Support	162,723		162,723
Telephone/Fax/Cellular	37,231		37,231
Law Enforcement	109,873		109,873
Auto Expenses-			
Gasoline	134,102		134,102
Maintenance and Repairs	86,996		86,996
Capital Outlay-			
Office Equipment	24,953		24,953
Special Forces Equipment			
Debt Service-			
Lease Purchases	5,043		5,043
Payment to County Treasurer		308,615	308,615
Total Expenditures	\$ 4,192,416	\$ 308,615	\$ 4,501,031
Fund Balance - December 31, 2006	\$ -	\$ -	\$ -

The accompanying notes are an integral part of the financial statements.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2006 services
- Reimbursements for 2006 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2006
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

WARREN COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2006
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 10.98 percent for the first six months and 13.19 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 25.01 percent for the first six months and 28.21 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Sheriff does not have a policy for custodial credit risk, but rather follows the requirements of KRS 41.240(4). As of June 30, 2006, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

WARREN COUNTY
 NOTES TO THE FINANCIAL STATEMENTS
 December 31, 2006
 (Continued)

Note 4. Leases

The office of the Sheriff entered into to a new lease agreement with Gary Force Toyota for a 2006 Toyota 4 Runner on December 20, 2005. The agreement requires a monthly payment of \$420 for 36 months. The payments are to be completed on December 20, 2008. The total remaining balance of the agreement was \$9,666 as of December 31, 2006.

Note 5. Fund Balance

The office of the Sheriff had a beginning deficit fund balance of \$1,574,115. The ending fund balance as of December 31, 2006 was zero.

Note 6. Public Seized Funds Account

The Sheriff maintains an official bank account for monies obtained from seizures and sale of property used in illegal drug activities. The purpose of this account is to purchase necessary equipment for operating the Sheriff's office. The beginning balance as of January 1, 2006 was \$5,231. Receipts for calendar year 2006 were \$15,416 and expenditures were \$17,646. The balance of the public seized funds account as of December 31, 2006 was \$3,002.

Note 7. Reimbursed Expenses

The amount deposited to the Sheriff's Operating Fund (75%) with the State Treasurer included reimbursed expenses. These reimbursed expenses include payments from the state and county. The following were reimbursed expenses, which are credited 100% to the Sheriff's Operating Fund.

Category	Amount
Fiscal Court	\$ 3,957,444
100% Fees	641,118
Federal Grant	25,800
Payroll Reimbursment	54,375
State Hwy	1,053
Expense Reimbursement	1,680
KLEFPF	146,552
Total 100% Fees	<u>\$ 4,828,022</u>

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Michael O. Buchanon, Warren County Judge/Executive
Honorable Jerry "Peanuts" Gaines, Warren County Sheriff
Members of the Warren County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Warren County Sheriff for the year ended December 31, 2006, and have issued our report thereon dated August 30, 2006. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Warren County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Warren County Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

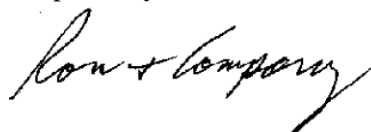
Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Report On Internal Control Over Financial Reporting And
Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standard
(Continued)
Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Warren County Sheriff's financial statements for the year ended December 31, 2006, are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management, the Warren County Fiscal Court, and the Kentucky Governor's Office for Local Development, and is not intended to be and should not be used by anyone other than the specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ross & Company", written in a cursive style.

Ross & Company, PLLC

August 30, 2006